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Central Intelligence Bulletin

State Department review completed

Top Secret

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28 November 1973

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Approved For Release 2004/01/15 : CIA-RDP79T00975A025700060001-0

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ARAB STATES - ISRAEL: Egyptian and Israeli military representatives are scheduled to resume their negotiations at Kilometer 101 today. Military activity yesterday was at a very low level.

No significant cease-fire violations were reported yesterday. According to Israeli press reports, however, small arms fire was exchanged by Israeli and Egyptian forces south of Little Bitter Lake, and Syrian units fired mortar rounds at Israeli positions in the northern portion of the Syrian front.

Cairo is showing increasing impatience with what it considers Israeli stalling in the disengagement talks at Kilometer 101. A Foreign Ministry spokesman charged yesterday that Israel's strategy of "playing for time" is not conducive to peace efforts, and suggested that "this can only reflect adversely its intentions toward the peace conference itself." When asked if a failure in the current talks would prompt Egypt to refuse to attend a peace conference, he indicated that "this is a question that is under close study at the moment."

The authoritative newspaper Al Ahram suggested yesterday that the Egyptian requirement that Israeli forces withdraw to the cease-fire lines of 22 October is a test of Tel Aviv's sincerity in negotiating a Middle East peace. The editorial added that "no talk of a peace conference would be of any use if Israel, even before such a conference opens, demonstrates to the world that it still considers itself entitled to defy the rules of legitimacy and violate any agreements." The paper also warned that the Arabs have sufficient military and other means to force an Israeli withdrawal.

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ARAB SUMMIT: The Egyptians are satisfied with the way the Arab meetings in Algeria have been going and probably expect the summit to endorse their position on peace negotiations.

According to the US Interests Section in Algiers, the Egyptian ambassador to Algeria said on Monday that Egypt was pleased with the outcome of the pre-summit Arab foreign ministers' meeting and that he expected Sadat to use the summit mainly to brief other Arab leaders on his negotiating strategy. An Egyptian spokesman at the summit meeting also publicly expressed satisfaction yesterday with the conference and indicated that the Egyptians thought the results were a foregone conclusion. The only sticking points, he noted, were relations between Jordan and the Palestinians and Syria's desire that Jordan prepare a third military front against Israel--a step King Husayn has long resisted.

The Egyptian spokesman rebuked Husayn for threatening not to attend the peace conference if the summit chose the Palestine Liberation Organization (PLO) to represent Palestinian interests at the peace talks. Prime Minister Rifai affirmed this position late yesterday afternoon, according to Amman radio, when he announced Jordan's acceptance in principle of the joint US-Soviet invitation to attend a peace conference. Despite these Jordanian threats, however, the summit conferees last night recognized the PLO as the "sole legal representative of the Palestinian people," according to press reports from Algiers. This action creates a serious dilemma for King Husayn. On the one hand, he is determined not to attend a conference at which he would have no authority to speak for the Palestinians, but, on the other, he is worried that, should he not attend, the future of the occupied West Bank would be entrusted to the fedayeen-controlled PLO.

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ISRAEL: Prime Minister Golda Meir probably will beat back critics within her own Israeli Labor Party and win a vote of confidence at a meeting of the party's central committee today.

The policies of Mrs. Meir and Defense Minister Dayan have come under increasing criticism, especially from so-called doves within the party. Party boss and Finance Minister Sapir and Foreign Minister Eban are in this category, although open criticism so far has come primarily from younger Laborites and intellectuals. The prospect of an early peace conference and the parliamentary elections scheduled for 31 December have added fuel to the intraparty debate, as they have to the general debate going on in the country. Officials and commentators have been disputing the correctness of Israel's pre-war foreign and security policies and the policies Israel should follow now.

The party dissidents have called for a variety of changes, including a reshuffle or removal of the top leadership, a postponement of the elections, and reopening of the party list of candidates. The doves are also urging a softening of party policies adopted in September on the occupied territories which reflected the increase in pro-annexationist sentiment up to the outbreak of the October war. The US Embassy expects that the party platform on this issue will be softened by the committee, but that decisions on substantive policy issues and on possible changes in key leadership positions will be postponed in order to maintain party unity for the elections. The embassy doubts that the candidature list will be reopened or that the elections will be postponed again.

The embassy believes that a recent Israeli newspaper poll predicting a sharp voting shift is too extreme. The poll claimed that if the elections were held now, the Labor Party and its close ally, Mapam, would lose 11 of their 57 Knesset seats, while their main rival, the new right-wing group, Likud, would add 15 to its current 31. [REDACTED]

EC-MEDITERRANEAN: The EC Commission believes the Middle East crisis has created a favorable opportunity for new community proposals in the negotiations for association arrangements between Mediterranean countries and the EC.

The EC has been engaged in protracted negotiations with Spain, Israel, and the Maghreb states for new or updated association agreements, and the community has generally recognized the need to make its offers more attractive. Many of the concessions significant to the associates, however, are opposed by agricultural interests--principally in Italy and France--that fear competition. The changes in the negotiating mandates that the Commission now plans to propose to the EC Council involve granting improved access to the community market for products such as tomatoes and citrus fruits, as well as lengthening the timetables under which the associates would open their markets to EC industrial exports.

The Commission may consider that the time is now propitious to gain community agreement on more generous offers. The Nine, in their Middle East declaration of 6 November, alluded to the Mediterranean arrangements as an important part of the EC's policy in the area. Moreover, since Israel is also involved in the community's so-called Mediterranean policy, improved mandates for all the current negotiations would permit the EC to demonstrate its "even-handedness" in a way unobjectionable to the Arabs. Petroleum is specifically involved in the negotiations with Algeria, and the Commission is now proposing an increase in the quota of refined oil products from Algeria. The Algerians had earlier offered to guarantee future oil shipments to the community in return for help in developing the country's energy resources--a concept that the EC has talked about in the context of a future common energy policy.

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[REDACTED]

An Israeli official in Brussels, sensitive to US concern over the eventual damage to US exports resulting from eliminating Israeli tariff barriers against EC exports, has informally suggested the negotiation of a separate US-Israeli free trade area arrangement.

The problems of the Mediterranean states will probably be taken up at the Council meeting on 3-4 December.

[REDACTED]

JAPAN: Prime Minister Tanaka has reshuffled his cabinet following the sudden death of Finance Minister Kiichi Aichi last week. The changes--in particular the elevation of Takeo Fukuda--signal a more purposeful Japanese campaign to cope with pressing domestic economic problems.

Fukuda, finance minister in the Sato government and Tanaka's top rival in the ruling Liberal Democratic Party, has been the harshest critic of Tanaka's economic policies. The Japanese are suffering severe inflation--a 20-percent rise in the wholesale price index and a 15-percent increase in consumer prices over the past 12 months. The fiscal and monetary restraints sanctioned by Tanaka have so far failed to dampen the inflation, and the petroleum shortage is adding to the crisis atmosphere.

Soon after assuming office, Fukuda called for a moratorium on government investment in public construction projects and rejected the use of measures designed to stimulate the slowing Japanese economy. If Fukuda is intent on controlling inflation, as seems evident, he will also press Tanaka to set aside political considerations and scrap an existing proposal for reduced personal income taxes--a measure designed to assist the ruling party in the critical Upper House elections next year.

Fukuda probably accepted Tanaka's offer of the powerful Finance Ministry only with the promise of a relatively free hand in deciding economic policy. The government's ability to respond more effectively to current economic problems will benefit from the appointment of strong and competent figures to some of the ten lesser cabinet posts and by the strengthening of Liberal Democratic Party unity symbolized by Fukuda's willingness to support the Tanaka administration.

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ARGENTINA: President Peron's recent illness has caused him to postpone the visit to the UN planned for early December.

Peron's chief advisers as well as his doctors apparently have persuaded him that such a trip might be fatal in his present condition. Even Foreign Minister Vignes, who had been pushing hard for a visit with President Nixon, reportedly has recommended against the trip. Although Peron still wants to come, it is unlikely that he will have recovered sufficiently to address the UN, the pretext for his trip, before the General Assembly closes on 19 December.

Despite Peron's remarkable rally, his health is delicate and his latest setback raises new doubts about his ability to govern. Even before his most recent illness, Peron was able to tend to affairs of state for only a few hours each day. Within the Peronist movement, the belief has been expressed that the lack of a firm hand at the helm will encourage new intrigues among Peronists, the military, and other political parties as factions and individuals maneuver for power.

BOLIVIA: President Banzer, after naming a "technical cabinet" and making public his earlier decision not to be a candidate in the next presidential elections, is now faced with a possible breakup of the political coalition that has supported his regime from the outset.

The Nationalist Revolutionary Movement, Bolivia's largest political party, abruptly withdrew from participation in the cabinet yesterday--ostensibly to protest its reduced ministerial role. While this could be just a tactical move to gain more cabinet posts, the Movement also sees an advantage in disassociating itself from a sinking government that will grow even more unpopular as austerity measures continue to drive up the cost of living.

If the Movement's departure from the cabinet is followed by withdrawal from the coalition, Banzer will be left with a severely weakened power base. He still has the support of the small right-wing Bolivian Socialist Falange and most of the senior officer corps. Banzer apparently failed to calculate the strong reaction of the Movement to bearing most of the cost of his plan to continue in power and postpone elections.

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EL SALVADOR - HONDURAS: Salvadoran President Molina has ordered a military alert as a result of the breakdown of peace talks with Honduras. Deep-seated antagonisms have remained strong since the 1969 war, and the continuation of this situation carries substantial risks of a renewal of hostilities. Negotiations had proceeded smoothly until they entered a substantive phase, but stalled on the same issue that has prevented agreement in the past--Honduras' insistence on arbitration and El Salvador's fear of it.

General Somoza of Nicaragua has cooled tempers for the moment by exacting promises from both Molina and Honduran Chief of State Lopez that neither will initiate hostilities pending a summit meeting early next week. Although Somoza will probably persuade them to return to the conference table, events of the past two days illustrate the danger inherent in the atmosphere of mutual distrust.

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Abu Dhabi - France: Three Mirage 5 fighters, the first of a consignment of 14, arrived in Abu Dhabi from France on 23 November. The remaining 11 Mirages will be delivered over the next few weeks in accordance with an agreement signed last April. Until Abu Dhabi has qualified pilots, the planes will be flown by Pakistanis.

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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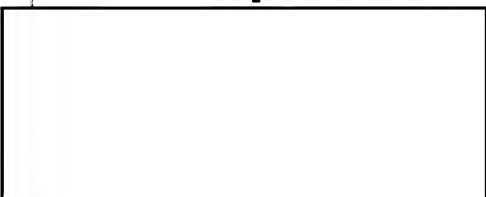
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